



## SUPPLEMENTARY 2

### THE EXECUTIVE

Tuesday, 3 June 2008

**Agenda Item 5. Council's Revenue and Capital Outturn 2007/08  
(Pages 1 - 32)**

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## THE EXECUTIVE

3 JUNE 2008

### REPORT OF THE CORPORATE DIRECTOR OF RESOURCES

This report is submitted under Agenda Item 5. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order not to delay the delivery of the project.

<b>Title:</b> Council's Provisional Revenue and Capital Outturn 2007/08	<b>For Decision</b>
<p><b>Summary:</b> The report provides the Executive with the Council's provisional revenue and capital outturn position for the financial year 2007/08.</p> <p>For the Council's General Fund revenue services, it highlights that the final position is an overall overspend of £563k. In relation to the Council's net budget of £263m this equates to a minimal 0.2% overspend. Given the significant pressures that have faced the Council in 2007/08, and the projected overspend of £7m reported in August 2007, the end-of-year position demonstrates a successful year of financial control, accurate forecasting, good systems/processes and the ability to implement and deliver action plans.</p> <p>For the Housing Revenue Account, the final working balance shows a position of £2.3m which continues to demonstrate sound financial strength.</p> <p>For Capital, the final position shows that £63.3m has been spent out of the original budgeted programme of £75.1m and a final working budget of £65.7m, which shows that continued progress has been made in quicker capital delivery based on accurate profiling.</p> <p>The report also covers the position on relevant carry forward requests from departments for capital projects, for consideration by Members.</p> <p><b>Wards Affected:</b> All Wards</p>	
<p><b>Recommendation(s)</b> The Executive is asked to:</p> <ul style="list-style-type: none"> <li>(i) Note the final outturn position of the Council's revenue budgets for 2007/08 (Section's 1 and 2 and Appendix A);</li> <li>(ii) Approve the use of the Council's General Reserve balances to fund the minimal 2007/08 overspend (Section 2.1);</li> <li>(iii) Approve the final in-year budget adjustments as set out in paragraph 2.2;</li> <li>(iv) Note the position of the working balance for the Housing Revenue Account (Section 3);</li> <li>(v) Note the outturn position for the 2007/08 Financial Health Indicators (Section 4 and Appendix B);</li> </ul>	

- (vi) Note the final outturn position of the Council's Capital programme (Section 5 and Appendix C);
- (vii) Approve the carry forward of categories A, B, D and E (i.e. committed and rolling programmes) from the 2007/08 Capital Programme to be incorporated into future years service capital programmes (Appendix D and D(i)), and approve the carry forward of category C schemes (i.e. not yet contractually committed) subject to an appraisal through the EPO process (Appendix E);
- (viii) Approve that the appropriate 2008/09 budgets be adjusted for advanced expenditure in 2007/08 of £6.2m (Appendix F); and
- (ix) Note the outturn position for 2007/08 Prudential Indicators (Section 6 and Appendix G).

**Reason (s)**

As a matter of good financial practice, the Executive should be informed of the final outturn and performance of the Council's Revenue and Capital financial resources.

**Implications:**

**Financial:**

The report identifies the Council's final revenue and capital outturn position for the financial year 2007/08 and the financial performance of all services throughout the year. It indicates that the Council's overall services throughout 2007/08 were maintained and generally delivered within existing budgets.

The report also identifies the relevant capital budgets that need to be carried forward into 2008/09.

**Legal:**

There are no legal implications regarding this report.

**Risk Management:**

The risk to the Council is that the overall 2007/08 budget could have been significantly overspent and that this would reduce the Council's resource position. Whilst there have been variations within individual departmental outturns these have been managed and monitored throughout the financial year by way of specific procedures including reports and necessary action plans to Resource Monitoring Panels, Departmental Management teams, the Corporate Management team and the Executive. This robust process has enabled their overall budgets to be brought broadly into line by the year end which is containable within the Council's reserves position.

**Social Inclusion and Diversity:**

As this report does not concern a new or revised policy there are no specific adverse impacts insofar as this report is concerned.

**Crime and Disorder:**

There are no specific implications insofar as this report is concerned.

**Options Appraisal:**

There are no specific implications insofar as this report is concerned.

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## 1. Introduction

- 1.1 At the end of 2007/08 the Council has a net overspend of £563k on its General Fund Revenue services against a profiled budget for the year of £263.4 million (0.2% over budget). The full departmental detail is included in Appendix A and is summarised as follows:

	<u>Budget</u> <u>£'000</u>	<u>Expenditure</u> <u>£'000</u>	<u>Overall</u> <u>Position</u> <u>£'000</u>
General Fund Services	263,387	263,950	563

- 1.2 In summary the overall departmental performances, after the recommended approved adjustments (see paragraph 2.2) can be summarised as follows:

<u>Service Department</u>	<u>Over/(under)</u> <u>spend</u> <u>£'000</u>
Adult & Community Services	(29)
Children's Services	680
Customer Services	(210)
Regeneration	240
Corporate Resources	(118)
Total	563

## 2. Service Position

- 2.1 Overall the Council is reporting an overspend position in 2007/08 of £563k which amounts to 0.2% of the original budget. The 2007/08 financial year has proved a demanding period for the Council with a number of significant financial pressures arising including:
- Delivery of the Residential and Homecare Modernisation programme;
  - Cost pressures within the Libraries and Community Safety services;
  - Increased demand for Children's Out of Borough Placements and Care leavers;
  - Cost pressures in Environmental & Enforcement Services;
  - Income and Cost pressures within Parks & open spaces;
  - Income pressures in Property services, on Commercial property and in the Local Land Charges service;
  - Cost pressures in the Skills, Learning & Enterprise service.

As a result of these pressures the Council reported in its August Budget Monitoring report a potential overspend position by the year end of £7m. However, since this time all department's have prepared and implemented a number of action plans

aimed at reducing expenditure and moving towards meeting their agreed budget by the year end.

Amongst other things, these action plans have included holding vacant posts, tight controls on agency recruitment and supplies & services spend, reduction in levels of overtime, a review of outstanding debt levels and a more focused use of all revenue grants. In addition the Executive also agreed two in-year budget adjustments for Children's Out of Borough Placements and the Residential Modernisation programme.

Given the size of the financial pressures, the end-of-year position demonstrates a successful year of financial control, accurate forecasting, good systems/processes and the ability to implement and deliver action plans.

A number of the on-going pressures that arose in 2007/08 have been resolved in the longer term through the 2008/09 Budget process.

It is recommended that the final overspend of £563k should be funded from the Council's existing General Reserve balances, where sufficient resources exist to be able to meet this cost.

- 2.2 As a result of the final year-end postings within the General ledger there is a need to ensure that for reporting purposes the revised budget reflects the outturn position.

To this end the following budget adjustments are required for approval, of which the net effect on the outturn position is nil:

- The final outturn position reflects the appropriate level of recharges required to be charged to departments through the usage of central support services (including transport and legal) throughout the year. As a result of these final allocations there is a need to adjust the recharge budgets between departments and services for central support services (£686k), transport (£385k) and legal services (£204k);
- The final outturn budget also reflects the appropriate level of project work undertaken in respect of the Building Schools for the future scheme which cannot be charged directly to the Capital project. In order to fund these costs it has been necessary to capitalise a number of smaller projects within service departments. As a result of these final charges there will be a need to adjust the following departmental budgets: increase the Children's Services budget by £297k and reduce the budgets in Adults & Community Services (£85k), Regeneration (£23k) and Resources (£189k).

- 2.3 Details of each area of the Council's financial position are provided in Appendix A. There are a number of variations to individual service accounts and relevant explanations are provided below.

#### 2.4 **Adult & Community Services**

The final outturn position for the Adult & Community Services in 2006/07 is an underspend of £29k. The final position has fallen significantly from the projected overspend reported in June which was £1.2m and is as a result of the implementation of the department's management actions plans throughout the year and an in-year budget adjustment for the Residential Modernisation programme.

The Adult and Community Services Department has faced a challenging year in terms of budgets in 2007/8 having been set a significant savings target of £2.45m. This savings target represented approximately 4% of the departments net budget. However whilst this was an extremely challenging target, savings were realised and budgets were reduced accordingly.

Financial pressures were experienced and reported throughout the year particularly in the Libraries area, and the Community Safety & Parks' Police budgets. These relatively modest cost pressures were able to be contained overall within the departments overall budget through robust budget management actions, partner support and demand management.

Overall the out-turn for the year has come in within budget which will assist in the attainment of the Departments increased "3 Star Top Rating " by the Social Care Inspectorate (CSCI) .

## **2.5 Children's Services**

Overall the Children's Services budget has faced major budget variations during 2007/08, with significant budget pressures arising particularly from the children's placement and leaving care services whose overspend amounted to £4.6m. These pressures have been able to be offset during the year through a combination of an additional in-year budget adjustment, additional income from the PCT (£1.1m) and the use of Standards Fund grants (£1.2m). Officers recognise that some restructuring of the overall budget for 2008/09 is required to avoid further major over and under-spends arising across the department, and plans to address this are well developed and will be taken to future Resource Monitoring panel meetings.

The final outturn position for the department is reporting an overspend of £680k. The projected position as reported in February had suggested that the overall position would be £0.2m overspent. There are two main reasons why the final outturn increase has increased:

- the final year-end allocation between the Dedicated Schools Grant (DSG) and the General Fund has resulted in some costs being charged to the General Fund than were previously estimated. The current work being undertaken on the chart of accounts will allow a systematic reporting of the DSG and General Fund position on a monthly basis to avoid these anomalies for the future.
- There was a need to write-down a number of outstanding income claims in respect of leaving care which related to the period between 2004 and 2006.

## **2.6 Customer Services**

The year started with some potential overspends being identified due to high agency and overtime costs combined with increasing pressures within Environmental & Enforcement Services. These potential overspends were contained through robust financial control and timely and effective management action resulting in the Customer Services Department underspending by £210k in 2007/08 against a budget of £28.8m (0.7%).

The Department successfully took control of services transferred from other Departments including Parks & Open Spaces and Parks Operations along with Highways Maintenance and On Street Parking. This challenging process was successfully managed and the combined services were brought in under budget in 2007/08.

The Environment & Enforcement Division reduced pressures on refuse collection and vehicle fleet through effective management action. Although this area still resulted in an overspend further management action within Barking & Dagenham Direct delivered underspends that contained the overspends within other Divisions. The Barking & Dagenham Direct underspend was achieved through higher levels of Housing Benefit overpayment collection combined with a reduction in the bad debt provision.

## **2.7 Regeneration**

The Regeneration Department faced significant adverse pressures during 2007/08 and from a projected overspend position of £755k (1.6% of gross budget) at July 2007 the department implemented a series of measures to control the overspend. These measures (strict controls on purchases of supplies and services and holding non-essential posts vacant) were very successful with the projected overspend reducing significantly such that at December 2007 the projected overspend was £182,500 (0.4% of gross budget). The delay in disposing of surplus land sites finalised in January 2008 however meant that anticipated transaction fee income was not forthcoming thus increasing the final outturn to £240k (0.7% of gross budget).

In summary the main pressures that the department had to deal with throughout 2007/08 included delayed transaction fee income in disposing of assets, funding changes made by the Learning & Skills Council in relation to the types of courses which it would fund and increased employee costs in the Leisure Centres. These pressures were able to be off-set through holding vacancies, controlling non-payroll spend and the generation of additional income (particularly in off-street parking).

## **2.8 Corporate Resources**

The Corporate Resources position covers the services of the Corporate Resources department, Corporate Management, Interest on Balances, Levies and the Use of the Contingency budget. In 2007/08 these services are showing an overall underspend position of £118k.

The Resources department faced several pressures during the course of 2007/08 including the shortfall of income in Local Land Charges due to changes in legalisation and the additional work required within Payroll to move employees from weekly to monthly payroll. The approval and implementation of a detailed action plan by the department's management team has been successful in producing this forecasted outturn position, and details of actions taken include holding vacant posts and tight controls on both the use of agency recruitment and supplies and services spend. Overall the Resources department is reporting an underspend of £65k.

Interest on balances during 2007/08 showed a positive position of £300k mainly as a result of a number of factors, the key ones being as follows:



- The profile of capital expenditure throughout the financial year resulted in average investment balances to be higher than expected;
- Interest Rates throughout the year have increased as a result of the Economic outlook. Overall the Bank of England Base Rate increased from 5.25% at the start of the financial year to a high of 5.75% in December. The final Bank of England Base rate at March 2008 was 5.25%.

These increased receipts have been used to fund budget pressures in service departments particularly around additional transport and legal costs.

In setting the budget for 2007/08, a contingency budget was approved for any unforeseen items that may arise during the year. The contingency budget made allowance for factors such as the cost of redundancies from savings options and premature retirement costs. The final contingency budget showed a net underspend of £24k.

## 2.9 Use of Reserves

The final outturn for 2007/08 includes a number of projects that have been funded from ear-marked reserves and these can be summarised as follows:

	<u>£'000</u>
Residential Care Modernisation	1,000
Children's Placements	3,500
Supporting 2007/08 Budget	1,296
Roll-Forwards from 2006/07	703
Invest to Save proposals	405
Contribution to Broadway Theatre	200
IT '10G' System	100
Single Status Agreement	602
One Stop Shop	400
Neighbourhood Management Service	350
Service Reconfigurations	1,021
<b>Total</b>	<b>9,577</b>

## 3. Housing Revenue Account

- 3.1 The Housing Finance Act, 1972 requires local authorities to maintain a separate Housing Revenue Account (HRA) and the Local Government and Housing Act, 1989 requires the Council to ring-fence the HRA thereby preventing any cross-subsidisation from the General Fund. The Council also maintains a statutory duty to ensure that the HRA does not fall into deficit.

The final position for the Housing Revenue Account shows that there is a working balance at 31 March 2008 of £2.3m compared to a opening balance of £1.7m. This can be summarised as follows:-

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>%</u>
Income	(77,645)	(79,714)	(2,069)	2.7
General & Special Management	26,366	28,206	1,840	7.0
Repairs & Maintenance	21,680	22,317	637	2.9
Interest Earned	(1,354)	(1,815)	(461)	(34.0)
Housing Benefit Limitation	3,449	3,174	(275)	(8.0)
Depreciation	13,108	13,332	224	1.7
Payment to DCLG	14,125	13,414	(711)	(5.0)
(Surplus)/Deficit	(271)	(1,086)	(815)	
Opening balance	(1,665)	(1,665)		
Transfer from Subsidy Reserve	0	(579)	(579)	
Transfer from Rental Income Reserve	0	1,074	1,074	
Closing balance	(1,936)	(2,256)	(320)	(16.5)

- 3.2 In 2007/08 the HRA generated an additional £2.1m (3.0%) rental income over budget due to a 53<sup>rd</sup> week of rental income (£1.1m); higher than estimated other rental income (£532,000); lower than expected rent write offs (£482,000).
- 3.3 The HRA was able to generate additional income from interest on balances due to higher than expected returns on balances. This generated an extra £461,000 (34.0%) that will increase the HRA's working balance for future years' investment in HRA services to residents.
- 3.4 Supervision and management overspent budget in 2007/08 by £1.7m (6.8%) due to higher costs providing concierge and caretaking services on Council Estates (£524,000); higher internal recharges, business service costs and office costs (£733,000); higher costs of investing in a quality and effective Housing advice service to residents (£522,000).
- 3.5 Repairs and maintenance services overspent budget in 2007/08 by £631,000 (2.9%) due to significant investment in local services. These costs were incurred by CHP's in providing ad-hoc responsive repairs and maintenance services to local residents.
- 3.6 The HRA is a net contributor to the Government on HRA subsidy. In 2007/08 the Council have reduced the amount payable to the Government by £711,000 (5.0%) after extensive work to maximise opportunities to reclaim lost rental income imposed on the Council through the Rent Restructuring Framework. Further analysis of the rent rebate subsidy limitation also enabled the Council to reduce the amount paid to the Government by £275,000 (8.0%).

#### **4. Financial Health Indicators**

- 4.1 The Audit Commission's Comprehensive Performance Assessment (CPA) introduced the requirement for the Council to undergo an assessment into its Use of Resources (UoR). The Council has a clear ambition to deliver excellent value for money services and to constantly improve and hence aspires to achieving Level 4 in its UoR assessment.

4.2 One of key themes within the UoR assessment is the need to evaluate the Council's position regarding its financial standing. A key line of Enquiry in achieving level 4 requires Members to monitor key financial health indicators and set challenging targets, for example, for income collection, level of variance from budget, prudential framework indicators, capital programme management etc. Whilst the council has a good track record of achieving these targets, it is appropriate that performance against these targets is presented to Executive on a regular basis. Attached at Appendix B is a list of the Council's significant financial health indicators for the financial year 2007/08.

## 5. Capital Programme

5.1 The total capital expenditure for 2007/08 was £63.3m out of a total budget of £65.7m, an underspend of £2.4m on budget. Included in this report are roll-forward requests totalling £8.5m, with £6.2m of budgets brought forward from 2008/09 into 2007/08, giving a net roll-forward position of £2.3m into future years.

5.2 These figures indicate that 96.3% of the capital programme was spent in 2007/08. This demonstrates the sound financial management principles that are applied across the capital programme.

5.3 The capital programme has been managed throughout the year by project sponsors with support from both the Enterprise Programme Office (EPO) and departmental finance teams. Significant efforts have been made to co-ordinate this work, ensuring that financial input is received effectively from finance groups, and that technical and project management expertise is received from the EPO. These efforts have contributed significant progress on a number of projects throughout the year.

5.4 The Executive is asked to consider and approve the carry forward of unspent budgets from 2007/08 into future years. The detail of these requests is included in Appendix D to this report. They total £8.5m. Of this sum, £7.7m relate to internally funded projects, and £0.8m relate to externally funded schemes.

5.5 An exercise has also been undertaken to highlight any existing schemes that remain uncommitted. This has highlighted schemes totalling £1.62m that remained uncommitted throughout the year, of which £1.55m were part of rolling programmes. In terms of the uncommitted schemes (£70k) these are outlined in Appendix E, and it is recommended that these are carried forward subject to an appraisal through the EPO process.

5.6 The capital outturn position can be summarised as follows:

Revised Budget 2007/08	<u>£m</u> 65.7
Less:	
Actual Expenditure 2007/08	63.3
Underspend	(2.4)
Budgets Rolled Forward into 2008/09	8.5
Budgets Brought Forward from 2008/09	(6.2)
Net underspend after roll-forwards	(0.1)

5.7 Within the overall position, a number of variances have arisen, as follows:

- Within Children's Services, projects relating to Children's Centres have overspent on 2007/08 budget by £1.7m. Budgets have been brought forward from future years to fund this position, but it is important that tight control is maintained to ensure that Children's Centres programme as a whole completes on time and on budget. Also in Children's Services, works on Eastbury Comprehensive have overspent by £0.5m compared to budget, and funding has been brought forward from 2008/09 to fund these costs.
- The Regeneration capital programme underspent by a total of £3.9m. This was predominantly as a result of the setting up of framework contracts for the Housing Futures programme. It is expected that this programme of works will deliver in full in 2008/09.

5.8 The budgets brought forward from 2008/09 of £6.2m are as a result of projects that have spent in advance of their 2007/08 budget, as a result of being ahead of their original programme timetables, so can be funded from resources currently included in the 2008/09 programme. These are detailed in Appendix F.

## **6. Prudential Indicators**

6.1 Regulations issued under the Local Government Act 2003 require local authorities to have regard to the CIPFA Prudential Code for Capital Finance. This code considers the prudence, affordability and sustainability of capital investment decisions made by the Council.

6.2 The Council set a series of "prudential indicators" to measure capital investment decisions against the key principles of the code. They include the level of capital expenditure, the associated financing costs and impact on Council Tax and Housing Rents. They also include treasury management indicators which set out limits for investment and borrowing decisions throughout the year.

6.3 Appendix G sets out the outturn position for 2007/08 against the indicators as set in February 2007. The headline assessment of these figures is that the capital programme placed a marginally lower burden on the revenue budget in terms of financing costs than had been budgeted for at the beginning of the year, as a result of slippage on the programme. The Council has not entered into any long term borrowing during the year. The treasury management indicators confirm that the limits set for investment and borrowing decisions were adhered to throughout the year.

## **7. Consultees**

Councillor G Bramley, Lead Member  
 Rob Whiteman (Chief Executive)  
 Corporate Directors  
 Finance Group Managers  
 EPO Office

### **Background Papers**

Oracle Management reports  
 RMP Briefing Notes

**REVENUE OUTTURN 2007/08**

<b><u>SERVICE DEPARTMENT</u></b>	<b><u>Original Estimate £'000</u></b>	<b><u>Revised Estimate £'000</u></b>	<b><u>Actual £'000</u></b>	<b><u>Variation £'000</u></b>
<b>ADULT &amp; COMMUNITY SERVICES</b>	58,647	62,165	62,136	(29)
<b>CHILDREN'S SERVICES</b>	172,129	177,289	177,969	680
<b>CUSTOMER SERVICES</b>	28,439	28,849	28,639	(210)
<b>REGENERATION</b>	9,847	10,093	10,333	240
<b>RESOURCES &amp; CORPORATE MANAGEMENT</b>	6,014	6,926	6,861	(65)
<b>GENERAL FINANCE</b>	(19,470)	(28,540)	(28,568)	(28)
<b>CONTINGENCY</b>	1,200	24	0	(24)
<b>LEVIES</b>	6,581	6,581	6,580	(1)
<b>TOTAL</b>	<b>263,387</b>	<b>263,387</b>	<b>263,950</b>	<b>563</b>

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**Key Financial Health Indicators to 31st March 2008**

**Revenue**

Financial Monitoring	Quarter 3	Year end	Current	Final	Final	Variance to
	Variance Projection	Variance Target	Budget	Outturn	Variance to Budget	Quarter 3
	£m	£m	£m	£m	£m	£m
Service Departments	1.7	0.0	285.3	286.0	0.7	0.7
Other Services	0.0	0.0	(21.9)	(22.0)	(0.1)	(0.1)
<b>Total</b>	<b>1.7</b>	<b>0.0</b>	<b>263.4</b>	<b>264.0</b>	<b>0.6</b>	<b>0.6</b>

**Narrative:**

Overall the Council is reporting an overspend position in 2007/08 of £0.6m which amounts to 0.2% of the original budget. The 2007/08 financial year has proved a demanding period for the Council with a number of significant financial pressures arising including delivery of the Residential and Homecare Modernisation programme, cost pressures within the Libraries and Community Safety services and increased demand for Children's Out of Borough Placements and Care leavers. As a result of these pressures the Council reported in its August Budget Monitoring report a potential overspend position by the year end of £7m. However, since this time all department's have prepared and implemented a number of action plans aimed at reducing expenditure and moving towards meeting their agreed budget by the year end. Amongst other things, these action plans have included holding vacant posts, tight controls on agency recruitment and supplies & services spend, reduction in levels of overtime, a review of outstanding debt levels and a more focused use of all revenue grants.

**Income Collection**

	Target	Cash	Actual	Cash	Variance to
	Collection Rate	Equivalent	Collection Rate	Equivalent	Target Rate
		£m		£m	
Council Tax	96.00%	£46.703m	92.6%	£45.026m	-3.45%
NNDR	99.50%	£44.578m	99.2%	£44.308m	-0.34%
Ctax Arrears - prior years	27.00%	£2.325m	25.81%	£2.222m	-1.19%
Rent Collection	97.60%	£73.057m	97.18%	£72.748m	-0.42%
					Cash Equivalent
					(£1.677m)
					(£ 270 k)
					(£ 103 k)
					(£ 309 k)

**Narrative:**

The figures shown for NNDR and Council Tax represent income collected as at the end of the financial year (March 2008) this is based on the official QRC calculation used by all Local Authorities in England & Wales. NNDR have recovered significantly since last quarter and though 99.2% is behind target, with the significant changes that have occurred within the Business Rates team (Partnership with Havering and a system conversion) achieving top quartile again is a big achievement. Council Tax collection rate is also behind target and 92.6% doesn't reflect the hard work and the new initiatives that have been put into place by the Council Tax team. Our Special Enforcement team collected over £480k from long standing debts this year, this and other new initiatives, that were put into place in quarter 4, we hope will build momentum and this will reflect positively in the collection figures for 2008/09. The calculation for rent collection is based on the calculation for BVPI66a, the same indicator that is used by all LA's, this shows that the end of year figure was slightly below the target but an increase of 0.23% on the last financial year.

## Key Financial Health Indicators to 31st March 2008

### Investments

	<u>Average Investment Balances</u>	<u>Benchmark Return</u>	<u>Final return 2007/08</u>	<u>Variance against Benchmark</u>	<u>Total Interest Earned</u>
	<u>£m</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>£m</u>
Council in House team	45.1	5.50%	5.51%	0.01%	4.324
External Fund Manager (1)	21.8	5.50%	5.82%	0.32%	1.106
External Fund Manager (2)	34.1	5.50%	5.25%	-0.25%	2.284

#### Narrative:

The Council met its benchmark targets of 5.50%. Quarter 4 was a favourable quarter for External Fund Manager (1) as they concentrated on the CD market to achieve the return for the quarter and the year. Going forward the fund currently has high yield CD's which should help performance in the falling interest rate environment predicted for 2008/09. External Fund Manager (2) on the other hand underperformed in quarter 4 and for the year as a whole. The poor performance reflected poor judgement of the gilt market. Gilt trading for External Fund manager (2) has proved unprofitable, towards the end of the year the fund was invested primarily in the Institutional Fund with a residual amount in short dated cash. The In-house team on the other hand met its benchmark this was due to Bank of England rate increases during the year as well as spending levels of the Capital programme remaining lower than budgeted.

### Capital

<u>Capital Programme</u>	<u>Projected Spend @ Q.3</u>	<u>Original Budget</u>	<u>Working Budget</u>	<u>Actual Spend 2007/08</u>	<u>Variance to Working Budget</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>
Capital Spend	59,773	75,116	65,713	63,328	(2,385) (3.7%)

#### Narrative:

The total capital expenditure for 2007/08 was £63.3m out of a total working budget of £65.7 which represents an underspend of £2.4m on budget. These figures indicate that 96.3% of the capital programme was spent in 2007/08. This demonstrates the sound financial management principles that are applied across the capital programme. The final outturn position for the Capital programme require roll-forward requests totalling £8.5m, with £6.2m of budgets brought forward from 2008/09, giving a net roll-forward position of £2.3m. These requests are further outlined in the main text of this report.



## Key Financial Health Indicators to 31st March 2008

### Capital

<u>Prudential Indicators</u>	<u>Original Indicators 2007/08</u>	<u>Revised Indicators 2007/08</u>	<u>Final Indicators 2007/08</u>
<u>Indicators</u>			
<u>Capital</u>			
Capital Expenditure	£75.1m	£65.7m	£63.3m
Financing Costs			
- Ratio of HRA Financing costs to Net Revenue Stream	17.82%	17.82%	17.82%
- Ratio of General Fund Financing costs to Net Revenue Stream	2.08%	1.23%	1.05%
Impact on Band 'D' Council Tax	£55.18	£32.60	£27.96
Impact on Average Housing Rent	£0	£0	£0
Capital Financing Requirement	£8,328	£8,328	(£152k)
<u>Treasury Management</u>			
Operational Limit on Borrowing	£10m	£10m	£0
Authorised Limit	£150m	£150m	£150m
<u>Narrative:</u>	<p>The final capital expenditure for the year 2007/08 was £63.3m against a revised budget of £65.7m. Financing costs demonstrate the loss of investment income earned on capital receipts as a result of using these balances to fund the capital programme. As a result of the capital programme being lower than originally anticipated when the budget was set, the loss of investment income was lower than originally budgeted, as shown by the lower ratio of financing to revenue stream. The Council did not need to borrow to finance capital expenditure in 2007/08, and therefore remained within the Treasury Limits set in the original budget.</p>		

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## CAPITAL OUTTURN 2007/08

### Summary of Expenditure

<u>Department</u>	<u>Original Budget £000</u>	<u>Revised Budget £000</u>	<u>Actual £000</u>
Adult & Community Services	2,019	2,406	2,115
Childrens Services	9,718	9,218	11,501
Customer Services	11,358	11,804	11,474
Regeneration	50,554	40,769	36,900
Resources	1,467	1,516	1,338
<b>Total</b>	<b>75,116</b>	<b>65,713</b>	<b>63,328</b>

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**CAPITAL OUTTURN 2007/2008**

**ROLL-FORWARDS BY CATEGORY**

<u>DEPARTMENT</u>	<u>CATEGORY A</u> £'000	<u>CATEGORY B</u> £'000	<u>CATEGORY C</u> £'000	<u>CATEGORY D</u> £'000	<u>CATEGORY E</u> £'000	<u>TOTAL</u> £'000
Adult & Community Services				171	136	307
Childrens Services	17			119	11	147
Customer Services	6			10	889	905
Regeneration	1078	11		5398	406	6893
Resources	57		70		107	234
	<b>1,158</b>	<b>11</b>	<b>70</b>	<b>5,698</b>	<b>1,549</b>	<b>8,486</b>

Roll-forward Categories being:

- A - Stand alone project - Contractually committed
- B - Stand alone project - Pre-contract spend only - Contractually committed
- C - Stand alone project - Pre-contract spend only - Not yet Contractually committed
- D - Rolling Programme - Contractually committed
- E - Rolling Programme - Not Contractually committed

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## CAPITAL OUTTURN 2007/08

## ROLL FORWARD REQUESTS

	Figures for 2007/08			Roll fwd	
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Request</u>	<u>Category</u>
	£000	£000	£000	£000	
<b>Adult &amp; Community Services</b>					
Service Refurbishment	78	10	68	39	E
Reconfiguration of Elderly Services <sup>1</sup>	1,318	1,225	93	93	D
St George's Complex	100	3	97	97	E
<b>Libraries and Heritage</b>					
Eastbury Manor House	116	46	70	70	D
Valance Site Redevelopment	444	436	8	8	D
	2,056	1,720	336	307	
<b>Children's Services</b>					
<b>Secondary Schools</b>					
Barking Abbey	23	16	7	7	A
<b>Other schemes</b>					
Schools Asbestos Programme	450	434	16	16	D
Schools Boiler Programme	100	89	11	11	E
Major Repairs Programme	180	77	103	103	D
Trewern Climbing wall	247	195	52	10	A
	1,000	811	189	147	
<b>Customer Services</b>					
<b>Non HRA</b>					
Private Sector Housing	1,035	770	265	265	E
Private Sector Households (DFGs)	925	637	288	288	E
Housing Modernisation Programme	1,750	1,547	203	203	E
<b>Customer Services B&amp;D Direct</b>					
Office Accommodation (Corporate Signage)	143	10	133	133	E
Interim One Stop Shop	32	26	6	6	A
Respond	12	2	10	10	D
	3,897	2,992	905	905	
<b>Regeneration</b>					
<b>Housing Strategy</b>					
Housing Futures Programme (including Disabled Adaptations, Interim Projects and Frameworks)	19,001	14,141	4,860	4,860	D
<b>Transport</b>					
London Cycle Network (LCN)	380	253	127	127	A
<b>Asset Strategy</b>					
Legionella Works	460	362	98	98	D
<b>Leisure, Arts and Olympics</b>					
BTC Public Art Project	38	26	12	12	E
Barking Park Artwork	10	0	10	10	E
Sporting Legends	52	1	51	51	E
Becontree Heath Leisure Centre	120	24	96	96	A
PGSS Schemes	1,617	1,432	185	185	D
<b>Asset Strategy</b>					
PTS Garage (Eastbrook)	40	0	40	40	A

## CAPITAL OUTTURN 2007/08

## ROLL FORWARD REQUESTS

	Figures for 2007/08			Roll fwd	
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Request</u>	<u>Category</u>
	£000	£000	£000	£000	
Backlog Maintenance	705	577	128	115	D
Capitalised Major Repairs	662	522	140	140	D
<b>Regeneration - Spatial</b>					
BTC Lifelong Learning	613	556	57	57	A
Barking Town Square Public Realm (Secret Garden)	154	144	10	10	A
Wind Turbines	30	0	30	30	A
Dagenham Dock Infrastructure	5	0	5	5	A
Thames Gateway Social Infrastructure	47	42	5	5	A
Dagenham Heathway Public Realm	2,299	1,877	422	422	A
Goresbrook Parade <sup>2</sup>	90	3	87	87	A
London Road Market Square	3,130	3,073	57	57	A
Energy Efficiency Programme	142	0	142	142	A
LEGI Business Centre	1,187	863	324	324	E
Planning Delivery Grant	69	60	9	9	E
<b>Other Accountable Body</b>					
LRL Industrial Signage	11	0	11	11	B
	30,862	23,956	6,906	6,893	
<b>Resources</b>					
IT for Members	17	0	17	17	E
E-government Programme (Council Services)	197	196	1	1	A
Desktop Management Programme	300	210	90	90	E
Data Backup Upgrade	70	0	70	70	C
Performance Improvement Software	38	2	36	36	A
i-Procurement	90	70	20	20	A
	712	478	234	234	
<b>LBBB Total</b>	<b>38,527</b>	<b>29,957</b>	<b>8,570</b>	<b>8,486</b>	

**Funded by:**

LBBB	7,741
External	763
	<b>8,504</b>

Roll-forward categories being:

- A - Stand alone project - Contractually committed
- B - Stand alone project - Pre-contract spend only - Contractually committed
- C - Stand alone project - Pre-contract spend only - Not yet contractually committed
- D - Rolling programme - Contractually committed
- E - Rolling programme - Not contractually committed

**Footnotes**

- 1 - Reconfiguration of Elderly Services revised budget has increased by £118,000 to reflect the latest valuation of the capital
- 2 - Goresbrook Parade roll forward of £87,000 has been requested to be added to New Dagenham Library in 2008/09



**CAPITAL OUTTURN 2007/08**

**CATEGORY C SCHEMES**

<u>Scheme</u>	<b>Figures for 2007/08</b>			<b><u>Roll fwd</u></b>
	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>	<b><u>Request</u></b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Data Back-up Upgrade	70	-	70	70
	<b>70</b>	<b>-</b>	<b>70</b>	<b>70</b>

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## CAPITAL OUTTURN 2007/08

## Budgets to be brought forward from 2008/09 to 2007/08

	2007/08			2008/09 Budget	
	Budget	Actual	Variation	Budget	Reduced Amount
	£000	£000	£000	£000	£000
<b>Childrens Services</b>					
<b>Primary Schools</b>					
Gascoigne Primary Remodelling	1,003	1,103	100	211	100
<b>Other schemes</b>					
Furze Children's Centre	906	1,712	806	806	806
Leys Children's Centre	500	1,243	743	743	743
Exceptional Basic Need	700	1,158	458	458	458
Schools Legionella	400	414	14	300	14
Renew Schools Kitchens	50	175	125	1,000	125
School Modernisation <sup>1</sup>	450	683	233	851	233
Fire Protection <sup>2</sup>	160	219	59	650	59
<b>Customer Services</b>					
<b>Environmental and Enforcement</b>					
Highways Maintenance	2,495	2,648	153	6,000	153
Contaminated Land	662	669	7	110	7
Waste Minimisation	74	180	106	606	106
<b>Customer Services B&amp;D Direct</b>					
Foundation Contact Centre	1,316	1,495	179	1,250	179
<b>Regeneration</b>					
<b>Housing Strategy</b>					
Lintons demolition	0	2,451	2,451	2,451	2,451
<b>Asset Strategy</b>					
Corporate Accommodation Strategy	760	777	17	17	17
<b>Spatial Regeneration</b>					
BTC Public Realm	200	207	7	245	7
Barking Child & Family Health Centre	0	111	111	5,224	111
Barking Town Square (Phase 2)	1,600	2,004	404	2,000	404
New Dagenham Library & Customer First Centre	1,483	1,662	179	725	179
Regeneration initiatives	103	117	14	14	14
<b>Skills, Learning &amp; Enterprise</b>					
Dagenham Job Shop	0	39	39	39	39
<b>Resources</b>					
e-Government Programme - Libraries	51	52	1	52	1
Citrix Server Upgrade	298	338	40	200	40
	13,211	19,457	6,246	23,952	6,246
<b>TOTAL</b>	<b>13,211</b>	<b>19,457</b>	<b>6,246</b>	<b>23,952</b>	<b>6,246</b>

**Footnotes**

1 - £200k spend on Warren Comprehensive is to be met from School Modernisation Fund

2 - Remainder of Fire Protection budget for 2008/09 is subject to EPO approval

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**The Prudential Code for Capital Investment in Local Authorities**

**Outturn Report 2007/08**

**1. The Prudential Framework for Local Authority Capital Investment**

- 1.1. The Prudential Code for Capital Investment commenced on the 1<sup>st</sup> April 2004. This system replaced the previous complex system of central Government control over council borrowing, although the Government has retained reserve powers of control which it may use in exceptional circumstances.
- 1.2. The regime offers significantly greater freedom to authorities to make their own capital investment plans, whereas the previous system restricted authorities to credit approvals controlled by central government.
- 1.3. Within this regime, authorities must have regard to the *Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities*. The principles behind this code are that capital investment plans made by the Council are prudent, affordable and sustainable. The code identifies a range of indicators which must be considered by the Council when it makes its decisions about future capital programme and sets its budget.

**2. The Prudential Indicators**

- 2.1. The Prudential Code sets out the information that each Council must consider when making its decisions about future borrowing and investment. This takes the form of a series of "Prudential Indicators".
- 2.2. The Code is a formal statement of good practice that has been developed to apply to all authorities regardless of their local circumstances. For example, while Barking and Dagenham is in a debt free position, the indicators in respect of borrowing will not be directly relevant. However, spending on the capital programme results in reduced interest on investments, which creates a gap in the revenue budget, and represents a sum that could otherwise have been spent reducing Council Tax levels, or being spent on other priorities.

- 2.3 This appendix will set out the original estimated 2007/08 prudential indicators as approved by the Council in March 2007, the revised estimates following in year budget adjustments as reported with the capital budget report in March 2007, and the actual outturn position, now that the final spend on the capital programme for 2007/08 is known.

### 3. Capital Expenditure

- 3.1 The first prudential indicator sets out **capital expenditure** both for the General Fund, and Housing Revenue Account Expenditure. These figures are shown in table 1:

Table 1: Capital Expenditure (Prudential Indicator)

	2007/08 Original Estimate	2007/08 Revised Estimate	2007/08 Actual
	£'000	£'000	£'000
HRA	33,321	19,801	14,956
General Fund	41,885	45,912	48,372
Total	75,116	65,713	63,328

- 3.2 Table 1 shows that actual capital expenditure was £63.3m against a revised budget of £65.7m. This was lower than the original budget of £75.1m.
- 3.3 The knock on effect of the reduction in spend on the capital programme is a reduction in the costs associated with financing the capital programme, and these are considered in the next section.

### 4. Financing Costs

- 4.1 The prudential code also requires Councils to have regard to the financing costs associated with its capital programme.
- 4.2 For an authority that has debt, the prudential indicator for its financing costs is calculated based on the interest and repayment of principle on borrowing. Conversely, for an authority without debt, it is the interest and investment income from its investments. This income contributes to the financing of the Council's revenue budget. However, when capital receipts are used to finance the capital programme, the amount of interest earned will be reduced. The use of capital receipts to finance the capital programme, rather than to raise interest receipts, is therefore a cost to the Council.

- 4.3 Since the authority does not borrow there is no Minimum Revenue Provision (“repayment of principle”) in the General Fund financing costs. For the HRA there is, however, a charge for depreciation based on the Major Repairs Allowance. This is included in the financing costs of the authority although in practice it is matched by an equivalent amount in HRA Subsidy.
- 4.4 Table 2 shows outturn figures for 2007/08 in respect of the Council’s Net Revenue Streams for both the General Fund and the Housing Revenue Account, Financing Costs for these two funds and the ratio of Net Revenue Streams to Financing Costs, based on capital expenditure shown in Table 1.

Table 2: Financing Costs (Prudential Indicator)

	2007/08 Original Estimate	2007/08 Revised Estimate	2007/08 Outturn
	£'000	£'000	£'000
<b>Net Revenue Stream</b>			
HRA	78,009	78,009	78,009
General Fund	134,607	134,607	134,607
<b>Financing Costs</b>			
HRA	13,904	13,904	13,904
General Fund	2,796	1,651	1,416
<b>Ratio</b>			
HRA	17.82%	17.82%	17.82%
General Fund	2.08%	1.23%	1.05%

- 4.5 The outturn position for the HRA shows the revenue stream and financing costs in line with the original budget. This has meant that the ratio of financing costs to revenue stream is in line with the budgeted level.
- 4.6 The outturn position for the General Fund shows the same revenue streams as per the budget. However, the reduction in spend on the General Fund element of the capital programme resulted in higher levels of interest being earned on capital receipts than expected.
- 4.7 Financing costs can also be shown with reference to their impact on Council Tax and Housing Rents and this is set out in Table 3.

Table 3: The Impact of Capital Programme on the Council Tax and Housing Rents (Prudential Indicator)

	2007/08 Original Estimate	2007/08 Revised Estimate	2007/08 Outturn
	£	£	£
For Band D Council Tax	55.18	32.60	27.96
For average Housing Rents	0	0	0

- 4.8 The table shows that, as a result of the underspend on the capital programme, the loss of interest and burden on the revenue budget (and by definition on Council Tax levels) as a result of new schemes was lower than expected, but slightly higher than was originally budgeted, as a result of additional programmes being added to the budget during the year.
- 4.9 As a consequence of the absence of debt and the Government's policy on rent restructuring the capital programme has a minimal impact on future rents. There are no borrowing costs and the revenue contribution to capital expenditure is set according to the rent levels that are established by the rent restructuring regulations.

## 5. Capital Financing Requirement

- 5.1 The Prudential Code requires the Council to measure its underlying need to borrow for capital investment by calculating its **Capital Financing Requirement**.
- 5.2 The outturn position for this is shown in table 4 below. The capital financing requirement identifies the level of capital assets on an authority's balance sheet, and compares this to the capital reserves to see how much of these assets have been "funded". The difference is the level of debt that the authority has to repay in the future, or the "capital financing requirement".

Table 4: Capital Financing Requirement (Prudential Indicator)

	2007/08 Original Estimate	2007/08 Revised Estimate	2007/08 Outturn
Housing Revenue Account (HRA)	(21,355)	(21,355)	(21,355)
General Fund	29,683	21,203	21,203
<b>Capital Financing Requirement</b>	<b>8,328</b>	<b>(152)</b>	<b>(152)</b>



5.3 The capital financing requirement has therefore remained unchanged for 2007/08 as the Council has not undertaken any borrowing. This is consistent with the Medium Term Financial Strategy (MTFS).

## 6. External Debt

6.1 Table 5 sets out the prudential indicators in borrowing limits. The Council is required to set two limits, an operational limit which should be kept to on a day to day basis (but could be exceeded for short term, “cashflow” purposes), and an authorised limit, which is the outer limit for borrowing in exceptional purposes. In the medium term local authorities only have the power to borrow for capital purposes.

6.2 The operational limit was set at £10m to cover potential borrowing liabilities from the capital programme in line with the Medium Term Financial Strategy. The Council has a significant borrowing requirement over the next 3 years, so the authorised limit was deliberately set at £150m to provide headroom for any unexpected developments in respect of treasury management.

6.3 The Council remained within its authorised limit of £150m throughout 2007/08. The Council borrowed £1m overnight for cashflow purposes once in the year, but did not need to borrow long term to finance the capital programme in 2007/08.

Table 5: Authorised Borrowing Limits (Prudential Indicator)

	2007/08 £'million Original Estimate	2007/08 £'million Revised Estimate
<b>Operational Limit on Borrowing</b>	10.0	0
Margin for Unforeseen Cash Flow Movements	140.0	150.0
<b>Authorised Limit</b>	150.0	150.0

## 7. Treasury Management Indicators of Prudence

7.1 The authority has an integrated treasury management strategy and has adopted the *CIPFA Code of Practice for Treasury Management in the Public Sector*. The *Prudential Code for Capital Finance in Local Authorities* supplements this by requiring council's to set and monitor specific indicators to demonstrate the prudence of its treasury

management policies. The position against these indicators for 2007/08 is set out below:

*a) Interest Rate Exposure*

**Indicator set March 2007:**

The Council will not be exposed to any interest rate risk since all its borrowing will be at known overdraft rates (if this occurred) and fixed rates.

**Outturn position:**

The Council was not exposed to any interest rate risk in 2007/08.

*b) Maturity Structure of Borrowing*

**Indicator set March 2007:**

All the Council's borrowing will be for a period of less than one year.

**Outturn position:**

The Council borrowed once in 2007/08, and this was for overnight cashflow purposes.

*c) Total Principle Sums Invested*

The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. The risk inherent in the maturity structure of the Council's investments is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance.

## **8. Summary Assessment**

- 8.1 The outturn position is set out above in respect of the Prudential Indicators approved in February 2007.
- 8.2 The outturn figures confirm that the limits and controls set for 2007/08 were applied throughout the year, and that the treasury management function and capital investment decisions adhered to the key principles of the CIPFA Prudential Code of **prudence, affordability and sustainability**.